

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MIKE GLEASON
CHAIRMAN
3 JEFF HATCH-MILLER
COMMISSIONER
4 WILLIAM A. MUNDELL
COMMISSIONER
5 KRISTIN K. MAYES
COMMISSIONER
6 GARY PIERCE
COMMISSIONER

7
8 IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
9 INC., AN ARIZONA CORPORATION, FOR A
10 DETERMINATION OF THE CURRENT FAIR
11 VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
12 RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS PARADISE
13 VALLEY WATER DISTRICT.

Docket No. W-01303A-05-0405

14 IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY
15 FOR APPROVAL OF AN AGREEMENT
16 WITH THE PARADISE VALLEY COUNTRY
17 CLUB.

Docket No. W-01303A-05-0910

18 **EXCEPTIONS OF THE**
19 **RESIDENTIAL UTILITY CONSUMER OFFICE**

20 The Residential Utility Consumer Office ("RUCO") makes the following Exceptions to
21 the Recommended Order on Arizona American Water Company's ("Arizona American" or
22 "Company") Step-One Arsenic Cost Recovery Mechanism ("Step-One ACRM") application.
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1 **BACKGROUND**

2 On December 19, 2006, Arizona American Water Company filed its Step-One ACRM
3 application for its Paradise Valley Water District, seeking cost recovery on \$19,382,673.00 of
4 arsenic related plant. RUCO audited the Company's application and determined, among other
5 things, that certain plant was no longer being used. This plant included three booster pumps
6 ("old pumps") which the Company had replaced but not retired on its books. The Company
7 had replaced the three booster pumps with two new booster pumps ("new pumps") for which
8 the Company is seeking recovery.

9 In a series of several meetings held after the Company's initial Step-One application
10 was filed, the Company, Staff and RUCO discussed various unresolved issues. On the issue
11 of the retirement of the old pumps, which was raised by RUCO at the initial meeting and only
12 had been an issue between the Company and RUCO prior to Staff's report, the Company
13 acknowledged that the old pumps were no longer used and useful and that the old pumps
14 should be retired. The Company further agreed that ratepayers should no longer continue to
15 pay for the retired booster pumps in rates and agreed to amend its application to remove the
16 costs associated with the old pumps. On February 14, 2007 the Company filed its revised
17 Step-One ACRM application, and consistent with its previous representations excluded the
18 recovery costs associated with the old pumps. RUCO filed its Report on February 16, 2007
19 and recommended approval of the Company's revised Step-One ACRM.

20 On March 1, 2007, Staff filed its Report on the Company's Step-One application. Staff
21 disagreed with the Company and RUCO's filing on the issue of the old pumps. Staff maintains
22 that the old pumps were not arsenic related and should therefore not be considered until the
23 Company's next Paradise Valley district rate case.

1 **THE COMMISSION SHOULD APPROVE THE APPLICATION AS WAS REVISED BY THE**
2 **COMPANY TERMINATING RECOVERY FOR THE OLD PUMPS.**

3 The basis of Staff's recommendation is that the old pumps were not arsenic related and
4 should therefore not be considered in the context of this proceeding. Staff completely misses
5 the issue. The issue is not whether the pumps were arsenic related or not. The Company is
6 not just adding new plant – in the course of adding new plant to address arsenic levels,
7 the Company has replaced pre-existing plant. The new pumps, which are arsenic related,
8 are performing the function that the old pumps, which were not arsenic related, were
9 performing. The appropriate ratemaking treatment is to remove from rates the non-used and
10 useful plant that is being replaced. The failure to make the adjustment would result in the
11 double-recovery of non-used and useful plant.

12 Staff's recommendation is troubling for several reasons. First, this was an issue raised
13 by RUCO and resolved between RUCO and the Company. Neither party learned of Staff's
14 concern until it filed its report on March 1, 2007. Second, the Company even recognizes the
15 need to remove the costs associated with the old pumps from rates and has agreed to make
16 the adjustment. Staff is advocating a position that results in higher rates with no legitimate
17 ratemaking basis. Third, ratepayers should not have to pay higher rates until the next rate
18 case. It is undisputed that the old pumps were replaced by new pumps. The costs of the old
19 and new pumps are undisputed. We know that ratepayers will be paying the costs of the old
20 and the new pumps and thus higher rates if the Commission fails to remove the costs
21 associated with the old pumps. The Company is in total agreement of removing the costs
22 associated with the old pumps. The Commission should reject Staff's recommendation and
23 should approve the Revised Application, which does not include costs associated with the old
24 pumps in rates.

1 Finally, ratepayers should not have to pay for the double-recovery of plant given the
2 significant rate increases that Paradise Valley ratepayers have recently experienced and will
3 continue to endure. If Staff's recommendation in this proceeding is approved, the average
4 monthly residential bill will increase 58.71¹ percent. The arsenic-related increase comes on
5 the heels of another significant rate increase authorized by the Commission in Decision No.
6 68858 issued on July 28, 2006. Additionally, the Company within the next year will be filing its
7 Step-Two ACRM application to recover the costs associated with the operation and
8 maintenance of the arsenic removal plant. RUCO is not suggesting that the Commission deny
9 recovery for the Company's costs of service. RUCO is suggesting that ratepayers should not
10 have to pay twice for plant which serves the same purpose when the old plant is no longer in
11 service. The Commission should reject Staff's recommendation to include the costs associated
12 with the old pumps. (Attached hereto as Exhibit A is RUCO's recommended Amendments to
13 the recommended order.)

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15 RESPECTFULLY SUBMITTED this 8th day of March 2007.

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Daniel W. Pozefsky
Attorney

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24 ¹ RUCO and the Company's recommendation results in an average monthly bill increase of 57.89%.

1 AN ORIGINAL AND FIFTEEN
2 COPIES of the foregoing filed this
8th day of March 2007 with:

3 Docket Control
4 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

5 COPY of the foregoing **hand delivered**
6 this 8th day of March 2007 to:

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Jeff Hatch-Miller Commissioner
8 William A. Mundell, Commissioner
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11 Teena Wolfe
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23 By _____
Ernestine Gamble

EXHIBIT A
RUCO's Amendment No. 1
(Retirement of old plant)

Page 7, Lines 12 through 13, DELETE THE FOLLOWING:

"20. We concur with Staff that it is not appropriate to reflect non-arsenic costs within the arsenic surcharge."

Page 7, Lines 12 through 13, INSERT THE FOLLOWING:

"20. We reject Staff's argument regarding the retirement of pumping equipment. We agree with the Company and RUCO that the ACRM surcharge should only include the *incremental* cost of arsenic plant and therefore all retirements must be netted out of the costs to be recovered. To do otherwise would result in a double recovery of both the retired pumps and the new pumps."

Page 7, Lines 16 through 18, DELETE THE FOLLOWING:

"22. Staff recommended that the Company file with the Commission an arsenic removal surcharge tariff consistent with either ACRM Schedule CSB-4 or CSB-8 as approved by the Commission."

Page 7, Lines 16 through 18, INSERT THE FOLLOWING:

"22. We reject Staff's recommendation that the Company file with the Commission an arsenic removal surcharge tariff consistent with either ACRM Schedule CSB-4 or CSB-8 as approved by the Commission. Further, the Company should file with the Commission an arsenic removal surcharge tariff consistent with the figures contained in the Company's revised application filed on February 14, 2007 as approved by the Commission."

Page 8, Lines 17 through 20, DELETE THE FOLLOWING CONCLUSION OF LAW:

"5. Staff's adjustments to the revised application are reasonable and appropriate and should be adopted. Approval of the Company's implementation of the arsenic cost recovery mechanism is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law."

Page 8, Lines 17 through 20, INSERT THE FOLLOWING:

“5. We reject the Staff position regarding pump retirements and accept the treatment afforded to these retirements in the Company’s revised application. Approval of the Company’s implementation of the arsenic cost recovery mechanism is consistent with the Commission’s authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.”

Page 8, Lines 21 through 22, DELETE THE FOLLOWING CONCLUSION OF LAW:

“6. It is in the public interest to approve the Company’s revised application for implementation of the ACRM, as modified herein.”

Page 8, Lines 21 through 22, INSERT THE FOLLOWING CONCLUSION OF LAW:

“6. It is in the public’s interest to approve the Company’s revised application for implementation of the ACRM.”

Page 8, Line 26, DELETE THE FOLLOWING ORDER:

“IT IS FURTHER ORDERED that Staff’s recommended Plan A is approved.”

Page 8, Line 26, INSERT THE FOLLOWING ORDER:

“IT IS FURTHER ORDERED that the Company-proposed Plan A is approved.”

Page 9, Line 1, DELETE THE FOLLOWING ORDER:

“IT IS FURTHER ORDERED that the revised application by Arizona-American Paradise Valley Water District for approval of an arsenic cost recovery mechanism surcharge tariff shall be in accordance with the attached ACRM Schedule CSB-4.”

Page 8, Line 26, INSERT THE FOLLOWING ORDER:

“IT IS FURTHER ORDERED that the revised application by Arizona-American Paradise Valley Water District for approval of an arsenic cost recovery mechanism surcharge tariff shall reflect the Company-proposed Plan A surcharges presented in the Company’s revised application.”